



Adams, D. , Dunse, N. and White, M. (2005) Conceptualising state-market relations in land and property: the growth of institutionalism - extension or challenge to mainstream economics? In: Adams, D., Watkins, C. and White, M. (eds.) *Planning, Public Policy and Property Markets*. Series: Real estate issues (Oxford, England). Blackwell, pp. 37-55. ISBN 9781405124300

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CONCEPTUALISING STATE-MARKET RELATIONS IN LAND AND PROPERTY: THE GROWTH OF INSTITUTIONALISM – EXTENSION OR CHALLENGE TO MAINSTREAM ECONOMICS?

Final version of chapter published in Adams, D., Watkins, C. and White, M. (eds.) (2005) *Planning, Public Policy and Property Markets*. Wiley-Blackwell: Oxford, pp. 37-55 (Chapter 3).

Details at: <https://www.wiley.com/en-gb/Planning%2C+Public+Policy+and+Property+Markets-p-9781405124300>

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INTRODUCTION

During the past 20 years, there has been a remarkable growth in institutional approaches across the social sciences. Similar principles underpin the institutional analysis of state-market relations in economics, politics, sociology and related disciplines, despite the confusion often caused by the different terminology used in each (Adams and Watkins, 2002). Nevertheless, while land and property markets have been extensively discussed from an institutional paradigm, such analysis remains controversial and open to misinterpretation. In this chapter, we therefore consider whether the advance of institutionalism should be regarded as an extension of, or challenge to, mainstream economics.

According to Michael Ball, institutional analysis is far more prevalent in the UK than in the USA since: “At the heart of the British literature is a firm belief in the efficacy of public policy. It can either override markets or steer market forces to achieve desired political ends. . . Although the form of intervention may have changed, the emphasis is still on putting policy rather than markets in the driving force of urban development” (Ball, 1998, p. 1502). Our concern, however, is not to prioritise either policy or markets but rather to explore how the relationship between them can be better understood by adopting an appropriate institutional framework. Although we construct this framework initially from a base within economics (since we consider this to be perhaps the best starting point from which to analyse how markets are influenced by public policy), we subsequently draw on insights from other disciplines within the social sciences.

We begin the chapter by identifying three main institutional features of the land and property markets that deserve particular examination. The first are the formal rules within which transactions occur, which may be directly or indirectly determined by the processes of governance. The second are informal conventions or the unwritten ‘rules of the game’ that may also be affected by policy decisions. The third are the network of relationships between market operators or agents and the extent to which policy induces the development of trust and the creation of other forms of social capital within the market place.

In the middle part of the chapter, we investigate new institutional economics, concentrating on the capacity of policy processes to alter transaction costs in land and property markets. We highlight how this approach differs from welfare economics in both its explanation of market failure and its recommended remedies. We then move on to explore more radical institutional perspectives on state-market relations, which we discuss under the term ‘the political economy of

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institutionalism'. Since these perspectives perceive markets as a social construct, we explore how they consider 'context', 'process' and 'social relations' essential in understanding market operations and price determination.

In the later part of the chapter, we specifically examine the inter-relationship between policy, risk and uncertainty. The fragile nature of many urban land and property markets beyond the favoured cores of certain central areas, suggests that a prime role for public policy is to reduce or contain risk and uncertainty in order to enhance user, developer and investor confidence in new forms of development. We thus highlight the need to bring risk and uncertainty to the fore in analysing the impact of public policy on land and property markets and to develop new ways of thinking that handle risk and uncertainty more explicitly in relation to policy intervention. We conclude the chapter by reinforcing our earlier plea for theoretical pluralism, and specifically for permeating mainstream economics with greater institutional input and linking insights so gained with those that can be derived from the political economy of institutionalism.

THE INSTITUTIONAL FRAMEWORK FOR LAND AND PROPERTY MARKET OPERATIONS

Within both new and old institutional economics, institutions are often regarded as the 'rules of the game' in contrast to the 'players' or organisations (North, 1990). More specifically, Hamilton (1932, p. 84) describes an institution as: "a way of thought or action of some prevalence, which is embedded in the habits of a group or the customs of people" suggesting that "institutions fix the confines of and impose structure upon the activities of human beings." Taking a similar approach, Lawson (1997) applies the term institution to those systems, or structured processes of interaction (collecting together rules, relations and positions as well as habits and other practices) that are relatively enduring and can be identified as such. In this sense, it is possible to conceive of land and property markets as networks of rules, conventions and relationships (Keogh and D'Arcy, 1999).

Institutional economics thus opposes the simple neoclassical notion that resources are allocated merely by market processes since it holds that markets both reflect and help to operationalise the institutional structure of society (Samuels, 1995). A broad range of explanatory variables, including cultural influences and power distribution, are required to explain market outcomes since "the market economy *per se* is itself a system of social control" (Samuels 1995, p. 573). As the rules, norms and regulations are created by society to enable the market to function properly, institutions reflect prevailing power and interests. Yet, to be successful, institutions must be effective in generating 'workable mutuality' out of the formal and informal processes of conflict resolution from which they develop (Rutherford, 1994). In this context, what is legally or culturally feasible may deserve as much attention as what is technologically feasible (Keogh and D'Arcy, 1999).

Although regarded as a social institution, the market is not considered by institutional theory to be a single uniform entity. Indeed, a strongly disaggregated view is taken of market structures, with each particular market seen as having its own routines and procedures alongside its own distinctive relations with a particular social culture and other institutions. "Accordingly, there is not just one type or set of markets – perhaps differentiated merely by the type and degree of market structure and competition according to textbook typology – but many different markets, each depending on its cultural and institutional context" (Hodgson, 1999, p. 94).

Reflecting perspectives across the social sciences, Jepperson (1991) suggests that the 'rules of the game' can be divided between 'regimes' and 'cultures', which each act as important carriers of institutionalisation. The former refers to explicitly codified rules and sanctions that are monitored by

a central authority, while the latter are customary or conventional in character and are not monitored in the same way.⁴ This is an important distinction in the context of land and property markets. The planning system might be considered an important regime, as might the rules of conduct within property professions, including their mandatory requirements on valuation methods. However, embedded cultures can also have an important influence, for example, on what is considered adventurous or conservative behaviour by market operators. An illustration of this is the notion of what should be regarded as ‘prime property’, which, while never firmly defined, is transmitted and refined from one generation of surveyor to the next.

A third carrier of institutionalisation alongside regimes and cultures are formal organisations (Jepperson, 1991). Our interest here is not in the formal structure of organisations *per se*, but the way in which organisations operate and relate to each other, accepting and reinforcing or challenging and transforming prevalent regimes and cultures. This might be described as assessing the richness of ‘actor-network relationships’, which is often termed ‘institutional thickness’, with its important implications in institutional theory for examining, for example, the nature of relations between the public and private sectors in urban land development.

NEW INSTITUTIONAL ECONOMICS

New institutional economics is conceptually grounded within mainstream economic theory and represents an extension of the neo-classical tradition discussed in the previous chapter. As Samuels (1995, p. 578) explains, new institutional economics “works largely within neoclassicism, and shares its rationality, maximisation, and market or market-like orientation and likewise tends to seek, though with less formalisation, the conventional determinate, optimal, equilibrium solutions to problems.” This view is shared by Hodgson (1989) who considers the remarkable growth of new institutional economics since the 1970s to be at the heart of developments in modern orthodox theory in contrast to approaches in ‘old’ institutional economics that derive from such writers as Veblen (1899) and Commons (1934) and challenge such basic tenets of neoclassicism as profit-maximising behaviour⁵. Rutherford (1994) also sees the vast majority of work in new institutional economics as an extension of neo-classical economics, while Ball (1998), in his review of institutions in British property research, firmly places new institutional economics as one of four specific institutionally related theories within mainstream economics.

Four main strands can be identified in new institutional economics (Rutherford, 1994), the first three of which are discussed in detail below:

1. Transaction cost theory deriving from the work of Coase (1937 and 1960) and developed by Williamson (1975 and 1985), with its associated organisational and agency theories.
2. Property rights theory in which economic analysis is subjected to, and interpreted within a framework of legal concepts (Demsetz, 1967; Alchian and Demsetz, 1973).
3. Public choice theory employing analytical tools from economics within political science (Olson, 1965; Mueller, 1989)
4. Game theory that seeks to predict action within given institutional circumstances (Shubik, 1975) and explain the evolution of social institutions (Schotter, 1981).

⁴ As an example, entrepreneurial behaviour may be constrained by both the formal rules of bankruptcy and by individual fear of the wider cultural connotations that bankruptcy might imply.

⁵ As Rutherford (1994: 182) explains: “The term ‘old’ (in old institutional economics) does not imply that the tradition is dead, dying or old-fashioned. Its use here denotes only the longer tradition of continuous and central concern with institutional issues.”

The principle that institutions evolve to minimise the transactions costs of commodity production and exchange is well rehearsed in new institutional economics (Coase, 1937; Williamson, 1985; North, 1990). Although Coase (1937) originally developed transaction cost theory as a means to explore the relationship between individual firms and the market as a whole, he subsequently broadened discussion to examine the arguments for and against state intervention as a method of resolving the problem of social costs and benefits. In this context, the powerful connections made by Coase (1960) between transaction cost and property rights theories have important implications for exploring the nature of state-market relations in land and property.

Specifically, Coase (1960) contends that the problem of social cost would not exist in a world of zero transaction costs since there would be no barriers to private individuals and companies resolving market failure through entering into voluntary arrangements for compensatory payments. As a result, market failure cannot be intrinsically ascribed to the presence of externalities *per se* but rather to the existence of high transaction costs that undermine attempts to allocate ownership over such externalities. Any case for state intervention must therefore derive from the absence of zero transaction costs rather than the mere existence of externalities. Governments may well be able to deal with market failure more effectively by creating a stronger system of private property rights that would reduce transaction costs by minimising risk and uncertainty (Jaffe, 1996) and thus enable externalities to be internalised.

According to public choice theory, the process of collective decision-making through systems of governance does not necessarily take place in a logical and transparent fashion since the existence of the 'political market-place' (Pennington, 2000) ensures that well-organised pressure groups may become disproportionately successful in the messy business of vote trading, alliance building and political compromise. Bureaucracies too may promote strategies that primarily seek to perpetuate and expand their own activities rather than to maximise economic welfare. In the end, intervention that might originally have been intended to redress market failure may well break down in the embarrassment of government failure.

New institutional economists therefore tend to portray governments as promoting the misallocation of resources, and creating laws, resources and regulations that are costly to society (Rutherford, 1994). In land and property markets, for example, state intervention distorts prices and encourages rent-seeking behaviour (Keogh and Evans, 1992). This may benefit those actors who have learnt how best to 'play the system' but does not necessarily contribute to overall production in the economy. To illustrate this, it is worth highlighting the difference in value between agricultural and residential development land (Adams and Watkins, 2002).

Agricultural land in the green belt is normally traded at agricultural land prices, with perhaps some additional hope value to represent the possibility of its eventual release for development in the distant future. In contrast, land allocated for residential development will be traded at residential land prices. The difference between these two sectors can be quite staggering. For instance, in the South East of England, the average value of one hectare in Spring 1999 was £1,370,000 if traded as bulk residential building land, but only at £8,000 if traded as mixed agricultural land (Inland Revenue Valuation Office, 1999). From an economist's perspective, development planning thus creates rentals gaps between sectors that reinforce sectoral divisions in the land market (Keogh 1985).

If it were possible to buy one hectare of land in the South East at £8,000 in the agricultural land market, have it reallocated for residential development and sell it for £1,370,000 in the residential land market, a gross return of 170 times the original sum invested would be achieved. In reality, however, it may take many years and great effort before reallocation happens or planning permission is granted. In the meantime, actors in the development process will engage in extensive

rent-seeking behaviour to capture development value. Landowners, for example, may be prepared to devote substantial resources over a long period of time to instructing the best lawyers and consultants available eventually to secure the release of their land for development, while local planning authorities may be so motivated by the prospect of substantial planning gain that they begin to evaluate alternative potential land release strategies by the comparative financial contribution they might yield in the form of 'community benefits'.

New institutional economics therefore challenges the implicit assumption in welfare economics that market failure can necessarily be addressed by government intervention. Specifically, for example, it argues that Pareto optimality is a wholly artificial construct that ignores information costs, institutional systems, property rights and real scarcity (Rutherford, 1994). Indeed, inefficiency rather than efficiency may well be embedded in the economic system as a result of uncertainty, individual risk aversion or moral hazard, all of which can be costly to reduce. New institutional economics thus calls on governments to consider instead how they might assign stronger rights of property to private decision-makers and create or support institutional arrangements designed to promote greater certainty within markets. This approach primarily reflects the assumptions and methodology of the neo-classical paradigm, while opening up conventional neo-classicism to useful insights on corporate formation and organisation, market systems and institutions and the operation of transaction costs as a mediating device (Samuels, 1995).

As Van der Krabben and Lambooy (1993) contend, the collection of information may well be an important transaction cost. They emphasise the importance of uncertainty in explaining human behaviour and point out that, because the knowledge of decision-makers is severely limited, people are boundedly rational and sometimes have to behave opportunistically. Although institutions are designed to reduce these uncertainties of human interaction, they also reflect prevalent power and influence. As a result, they may succeed in reducing transaction costs only for those groups who are most powerful in the market or most successful in lobbying policy-makers in their favour. On this basis, it cannot therefore be assumed that land and property markets will always be moving towards greater efficiency and lower transaction costs (Keogh and D'Arcy, 1999).

At present, it is fair to say that policy processes impacting on land and property markets are not explicitly designed to reduce transaction costs and that such an approach would probably require both a philosophical and operational switch in the policy environment. Nevertheless, insights from new institutional economics highlight the possibility that policy actions might unconsciously and inadvertently serve to increase transaction costs in such markets, and thus damage the potential for effective market operations. Uncertainty, instability or delay in the planning system, for example, all potentially increase market transaction costs, while open and effective systems of land registration will reduce them.

THE POLITICAL ECONOMY OF INSTITUTIONALISM

The political economy of institutionalism can be said to derive from a broad range of enquiry across the social sciences that draws on such disciplines as economics, sociology, political science and economic geography. Although the most relevant ideas from economics can be traced back to such early writers as Veblen (1899), Commons (1934) and Mitchell (1937), who laid the foundations of old institutional economics, more recent contributions from Hodgson (1988, 1989, 1993 and 1999) and other 'evolutionary economists' have refreshed this tradition.

However, many commentators who approach political economy from other disciplines often fail to notice the distinction between old and new institutional economics or to acknowledge that

habits, rules and conventions have long been seen as fundamental components within old institutional economics (Hodgson, 1989). Amin and Thrift (1995), for example, who commend arenas such as new institutional sociology, suggest that: “the new institutional economics is radically undersocialised as an approach” (p. 100) without mentioning how the social processes of institutionalisation are explicitly addressed in old institutional economics and its modern equivalent, evolutionary economics. For instance, in recognising that contracts cannot be designed to cover every eventuality in relations between people, evolutionary economics highlights the importance of such factors as trust, honesty and decency in making business deals (Hodgson, 1999).

Since the ‘economy’ is much broader than the ‘market’ (Samuels, 1995), it is important not to restrict economics to the study of market systems but instead to investigate the whole range of institutions that determine the form and operation of markets. This approach regards the economy as fundamentally ‘processual’ with emphasis placed not on the achievement of some ultimate equilibrium but on the means by which it evolves from one state of existence to the next. In the operation of this process, institutional change may equally well result from changing ideas, norms and values as from changes in either technology, the ratio of factor prices or the costs of information (Van der Krabben, 1995). In practice, therefore, there is much common ground between modern theories of economic evolution and the emphasis placed by Amin and Thrift (1995) on investigating the processes of institutionalism rather than the mere existence of networks of institutions.

From such varied sources derives ‘the political economy of institutionalism’ which, we suggest, takes us much further along the journey of understanding state-market relations in land and property markets than has been achieved so far in mainstream economics. Significantly, the institutions of the market are considered by political economy both to be reflective of power relations in wider society and designed to provide certainty and stability in “an economy that is essentially non-equilibrating, imperfect and irrational” (Amin, 1999, p. 366). Nevertheless, these institutions should not be considered as static or immutable since they are shaped and fashioned by continuous interaction between the strategies, interests and actions of market actors and the inherited economic, social and institutional structure of the market. As Healey *et al.*, (1995, p. 14) note: “This activity of structuration, the interrelation between structure and agency, is actively constructed both through the material flow of resources and through the construction of ideas, images, values and norms.”

Actor-network relationships

Much has been written about the importance of actor-network relationships, especially in the context of building up local institutional capacity in economic development (see, for example, Amin, 1999; Amin and Thrift, 1995; MacLeod, 1997; Raco, 1997). As local authorities have moved from their traditional role as providers to take on different responsibilities as enablers, so their connections with other public sector bodies and the private sector have become more important. A key issue here is whether stronger actor-network relationships, especially between the public and private sectors, merely add to bureaucratic complexity or whether they help make the urban development process smoother. In this context, the Civic Trust (1999) has called for a more subtle mix of knowledge and skills in local government, including project management, partnership development, grant brokering, market research and development economics.

Other important actor-network relationships exist in which the public sector has but an indirect influence. Crucially, for example, the property market has been portrayed as a forum within which the interests of users, developers and investors are closely linked (Adams, 1994; Keogh 1994), even if there is plenty of room for friction between these parties in interpreting market evidence and responding to market signals. Better communication between users, developers and investors may

well have wider benefits. Examples would include the speed with which consumer preferences are understood and acted upon by the housebuilding industry and the extent to which the commercial development industry responds or fails to respond to demand from manufacturing companies for good quality but not over-elaborate workspace.

A variety of initiatives could be taken to enhance the richness of market networks. For example, it may be worth building on the success of online Solicitors Property Centres in Scotland that ensure rapid access to information for private buyers and sellers alike. This could significantly improve the efficiency of the private housing market by removing the need to travel around five or six estate agents in any town to collect necessary information. Nevertheless, the creation of such voluntary arrangements to improve public access to market information critically depends on whether the professionals who service land and property transactions consider it will improve their efficiency without reducing their potential to earn fees from the professional negotiation of individual transactions. This may raise the question of whether the commercial surveying network, which appears to be a close-knit community in most cities and in which market information is shared extensively between those who happen to be inside the group, needs to be subject to greater external regulation in order to empower those outside the network.

To further counter lack of information, for example, recent initiatives to create a National Land Information Service (NLIS) in England provide a model of what could be achieved with public support and finance if all existing information systems on land and property are linked together and made available online. This might also reduce the costs of market entry and exit. However, as suggested in the paragraph above, the main barriers to better information systems in land and property markets are not necessarily technical but institutional. Since knowledge is power, certain interests may well be reluctant to allow their protected information to be placed in such a public domain, since immediate availability may reduce the demand for their services (Adair *et al.*, 1998a).

These various examples suggest that public policy could play a more active role in ensuring the delivery of high quality reliable information to all market actors. At the local level, this might require local authorities or development agencies to bring together all relevant local information on market activities in much the same way as population or employment trends are already monitored. However, mindful of the potential for government failure mentioned earlier, any such initiative would need to involve a high degree of active co-operation between the public and private sectors.

In sustainability terms, it may be that stronger institutional networks in urban regeneration areas would persuade developers and investors to apply lower property yields, thereby taking a longer term view of the period over which development would need to show a return before it could be considered viable by the private sector. Recent research indicates that once a regeneration area becomes established and rental growth is apparent, competition between investors is likely to reduce property yields (Adair *et al.*, in this volume). Interestingly, regeneration property yields in the Adair *et al.* study decreased by 1.44% between 1995 and 2002 compared to a 0.4% increase in yields over the same period for investment property more generally. Since regeneration areas were found to offer significant investment returns over the long term, Adair *et al.* (see Chapter 8) were able to argue that high levels of public sector support enable such areas to mature and develop as sustainable urban environments capable of meeting private sector investment goals.

Formal rules and regulations

Turning to the importance of a supportive regime of formal rules, D'Arcy and Keogh (1999) have demonstrated how the modernisation of property law in Spain during the 1980s helped create a

system of commercial lease structures that was conducive to incoming property investment. Certainly, the legal framework for property market operations provides an essential element contributing to the extent to which investment can be considered secure, liquid and profitable. Other forms of state intervention that set important regime boundaries for the land and property markets include compulsory purchase law and compensation arrangements.

The planning system can also play a critical role in creating a favourable regime for property market operations. The Department of Transport, Local Government and the Regions (2001) itself considered planning reform in England essential to tackle such perceived problems as complexity, lack of predictability, delay and insufficient customer focus. Interestingly, these themes have appeared many times before, with substantial debate evident on whether the British planning system is too flexible or too uncertain. In this context, Syms (2001), in assessing how best to promote brownfield redevelopment, suggests that market confidence in such locations may well be best engendered by a more flexible approach to development regulation.

Conceptually, it is important that to regard the law not as objective, neutral and beyond reproach, but rather as shaped by the competing ideologies or philosophies that have dominated human debate at different periods in its construction (McAuslan, 1980). There is an interconnection here between law, public policy and professional approaches to valuation, especially where land values may be reflective of statutory guidance or informal advice on how land compulsorily taken is to be valued. The substantial body of statute and case law that has been built up in this field now provides an essential institutional environment within which state-market relations in urban redevelopment may be framed. Although such a well-developed area of law and practice conveys clarity on what is and is not possible, it may also serve to stultify creativity and market innovation.

Informal customs and conventions

In old institutional economics “the notion of the sovereign consumer with given tastes and preferences is replaced by a view of individuals as subject to the pressures of advertising and salesmanship and to the prescriptive power of existing social norms” (Rutherford, 1994, p. 130). The power of institutions to mould individual aims and ideals is therefore an important reason why economists in this tradition cannot accept the orthodox notion of individualism as the basis of economic decision-making. Rutherford (1994, p. 6) suggests that while it is not necessarily irrational to follow accepted social norms and conventions “some types of norm guided behaviour do strongly resist explanation in rational terms.”

Analysis of market customs and conventions demonstrates that the British property industry is highly fashion conscious, with much of its symbolism derived from advertising and the media. This is apparent not simply in the way in which properties are marketed (and sometimes designed primarily to catch market images rather than provide long-term substance) but also in the openness of the industry to new concepts and ideas, even if they could benefit from greater testing before market launch. In this context, Guy and Henneberry (2002c) draw attention to the connections between subjectivity, image and the creation of economic value, commenting that even a casual browse through architectural or property magazines or a cursory inspection of promotional literature for new development soon reveals the link between property, desire and identity.

A very real issue in this respect is the way in which new products are devised and marketed and the extent to which this is open to policy influence. There is a sense in which innovative property concepts, such as business parks or regional shopping centres, emerged and were disseminated as new products, only for the planning system to take some time to catch up with the innovation and later to decide how best to react. Although the impact of this on land pricing is only indirect, it is

important to question how new ideas arise in property, whether they have any long-term substance and how this process might best be influenced from a policy perspective. Moreover, as sustainability grows in importance across all business sectors, it becomes important to differentiate those in the property industry whose products have changed significantly as a result of the new agenda from those who pay merely lip service to the concept in order not to lose influence with policy-makers.

It is evident that the property industry is a past master in taking advantage of emerging customs and cultures in the public sector and turning them to its own advantage. Research on Stoke-on-Trent, for example, revealed how concerned the city council was about views and images of the city presented to travellers on the main west coast rail line. As a result, it was particularly keen to see the redevelopment of brownfield sites that were visually prominent from the railway. Similarly, in Dundee, it became apparent that the city council had promoted the development of a technology park on an inner urban site that was particularly prominent to passing motorists. The research suggested that this concept of visual prominence, for example, could be readily exploited, and indeed promoted, by well-advised owners seeking permission for that otherwise elusive retail development (Adams *et al.*, 2002).

Although the political economy of institutionalism thus begins to open up new territory well beyond mainstream economics and identifies numerous lines of interesting enquiry, much work still needs to be done to apply, test and develop its insights in both research and policy-making. In research terms, Hodgson (1999) warns that institutional economics can degenerate into extensive data-gathering and naïve empiricism, without producing much of general value. He calls for an emphasis on developing meaningful and operational principles of categorisation as a basis for analysis. While the political economy of institutionalism has expanded rapidly in recent years and serves to counterbalance the strength of mainstream economics, much further research and thought will be required if it is ever to provide a wholly alternative and fully rounded body of knowledge.

UNCERTAINTY, RISK CONTAINMENT AND CONFIDENCE BUILDING

A critical function of markets in a modern economy (including urban property markets) is to convert uncertainty into risk (Van der Krabben, 1995). In a world where many future events are possible, uncertainty refers to a lack of knowledge of all possible outcomes and the impossibility of specifying their likelihood. Risk refers to specific calculations of the likelihood of each possible outcome taking place. Risk theory within mainstream economics provides the basis for risk pricing in the financial markets and for the development of modern portfolio theory, which has been extensively applied in property investment (Dubben and Sayce, 1992; Ball *et al.*, 1998). What is clear from such theory is that public policy can directly affect market pricing for good or ill through the extent to which it increases or diminishes the prevalence of risk. Yet, while mainstream economics can demonstrate the potential for this outcome with theoretical rigour supported by quantitative analysis, it leaves the processes by which it can be achieved and the comparative effectiveness of different policy mechanisms in doing so, under-explored.

A more thorough investigation of the potential impact of public policy on risk pricing requires appreciation of the institutional context for land and property markets. For example, in relation to urban regeneration, Adair *et al.* (1998b, page 16) comment that: “Reduction of risk is a key issue with the result that private sector investment depends on the facilitating role of the public sector”. They call for the public sector to take a lead in confidence building measures, including a guaranteed minimum standard of infrastructure, clarity in public policy and processes, targeting of initiatives, simplified planning processes and land assembly.

Uncertainty is considered to have potentially significant transaction costs in new institutional economics. This tradition places emphasis on the capacity of strong property rights to reduce risk and uncertainty by minimising negative institutional interruptions to the expected future flow of returns from investment. However, as Hodgson (1988) argues, rules, norms and conventions can play an equally important role in making the world more certain, reflecting, according to Lawson (1997, p. 182), the Keynesian view that a certain amount of conventional investment practice in the midst of widespread speculative behaviour can be attributed to “the psychological need of individuals for continuity and sameness in all they are doing.”

Does such habit persistence provide a better indicator of developer response to price change than the neo-classical theory of current price-taking as Antwi and Henneberry (1995) have argued? If so, the ironic impact of developer behaviour intended to gain shelter in an uncertain world may be to make that world more volatile by continuing to bring forward development supply when a closer reading of market conditions would suggest that it is time to stop building. If this is the case, acknowledging the detrimental impact of substantial volatility in property markets especially in secondary locations, should public policy (if it has the capacity so to do) take a more dynamic view of market operations and seek to respond to the changing circumstances of the property cycle especially during its recessionary phase?

Neutze (1987) argues optimistically that by clearly specifying the level and form of development that will be permissible, land use plans can reduce uncertainty and hasten the level of development. He suggests that: “The result would be to increase the supply and reduce the price of land for development and redevelopment” (Neutze, 1987, p. 387). Unfortunately, this position requires almost heroic assumptions about the effectiveness of both the planning system in particular and government machinery in general. For although Neutze maintains that the overall impact of land use planning is to make the whole context within which development takes place less uncertain, he acknowledges that frequent changes in plans cause increased uncertainty about the future pattern of development.

As Hodgson (1999) thus suggests, democratic institutions do not cope easily with uncertainty. It can be argued that the distinctive nature of land as a commodity and the significance of imperfections and failure within the market suggests the need for some central overview and management of supply and demand as a means of making market processes more certain. However, the whole bureaucratic machinery of government may instead deliver frequent policy switches as it struggles to keep up with market trends, so aggravating uncertainty and raising transaction costs. Moreover, if policy-makers act as a constraint on innovative forms of development (such was argued in the case of business parks), risk loving actors prepared to challenge the system may, if successful, have the chance to make super profits from speculative activity unnecessarily created by state uncertainty.

Some believe that the emergence of policy out of the broader processes of governance rather than within the narrow machinery of a centralised state might itself help reduce uncertainty in the market (Healey *et al.*, 1995). An explicit concern with uncertainty from within the political economy of institutionalism might also begin to highlight the need to ensure more transparent and accessible information systems across the property industry and to promote higher standards of customer service and ‘professionalism’ in those parts of the market not currently so served. It might focus on challenging rather than reinforcing the power of those whose control of information puts them at a privileged position to benefit from market uncertainty, while attempting to develop rules, norms, conventions and customs, along with institutional capacity that enable sophisticated and smoother forms of state intervention in market processes.

CONCLUSIONS

As this chapter has indicated, the rich body of thought generated by the growth of institutionalism has manifest resonance in facilitating an improved understanding of state-market relations in land and property. Since it is apparent that particular institutional approaches can be used either to reinforce or to challenge mainstream thinking, it is important to appreciate the diversity and range of institutionalism and to avoid the danger of treating all institutionalists as belonging to a single and cohesive school of thought. While new institutional economics and the political economy of institutionalism both subscribe to the pervasive influence of institutions in market operations, they exhibit significant differences in the institutions they consider matter most, in their theoretical construction of the market and in the most appropriate role for the state to play within the market.

Although new institutional economics shares much in common with neo-classical economics, its emphasis on transaction costs moves analysis of state-market relations in land and property beyond earlier consideration of the overall impact of policy on supply and demand. This helps to focus attention on how governments can devise and shape institutions with the capacity to eliminate or minimise those frictions and uncertainties that collectively constitute the essence of transaction costs. While new institutional economics can claim its place in mainstream thought as an extension of the neo-classical tradition, it nevertheless disputes many of the precepts of another branch of the mainstream, namely, welfare economics. As a result, it regards direct government intervention as only one of several strategies that might be adopted to enhance the institutional framework and usually considers such intervention less preferable to the creation of clear property rights, reinforced by robust systems of law and administration.

The political economy of institutionalism represents a challenge to mainstream economics since it emphasises the social construction of economic life and takes a strongly disaggregated view of market structures, with distinctive routines, cultures, procedures and institutions evident in each sub-market. This suggests that the notion of a single policy response to land and property market operations is inappropriate and that a more sophisticated and varied set of responses are needed that reflect the institutional context of each sub-market. In this context, actor-network relationships, formal rules and regulations and informal customs and conventions serve as three important carriers of institutionalism, through which public policy impacts on land and property markets.

However, institutional analysis faces a particular challenge in translating theoretical understanding into a consistent basis for empirical work. For example, in terms of measuring the impact of the planning system on new housing supply, many authors have adopted a neo-classical econometric approach. While estimates differ, this body of work highlights significant supply problems. Although institutional analysis might suggest or imply that these relate to house builders behaviour as much as the planning system, it needs to develop more rigorous research methods to substantiate such claims empirically. If this can be achieved, then the more qualitative nature of institutional analysis will be better placed to complement the emphasis on empirical hypothesis testing in mainstream economics.

Across the two chapters, we have thus sought to demonstrate how analysis of state-market relations in land and property can benefit both from permeating mainstream economics with greater institutional input and from linking the insights so gained with those that can be derived from the political economy of institutionalism. Since both process and outcome are essential to understanding the complexity of state-market relations in land and property, we have argued the case for theoretical pluralism, and specifically, for the explanatory power of mainstream economics to be reinforced by an appropriate institutional framework.

Yet, despite the importance of a conceptual continuum and the value of weaving institutional perspectives into mainstream approaches, it is apparent that particular conceptual frameworks may be better suited to particular sub-markets. Much econometric modelling in the neo-classical tradition is centred on investment property markets in the City and West End of London where lengthy time series of appropriate data make it at least possible to attempt such an endeavour. Taking advantage of the richness of property data and the functional specialisation of the City of London office market, Blake *et al.* (2000), for example, have successfully developed an econometric model of market movements, based on interacting multiple equations. It is more difficult to apply such techniques to the brownfield land market, for instance, not merely because policy influences are that much greater but also because readily available and consistent data is so much harder to obtain. Yet, while the institutional emphasis within land and property market analysis has been pioneered primarily where public policy appears significant (in urban regeneration areas, for example), there remains a pressing need to address the under-development of this approach in well-developed commercial markets that have been less reliant on policy intervention.

An essential challenge in market analysis is thus to investigate not only the direct impact of policy on property transactions but also its indirect impact on the context within which transactions occur. Although we recognise the inherent difficulties confronting democratic societies as they seek to cope with ever-greater uncertainty in an increasingly complex world, we believe that public policy might explicitly seek to reduce risk in land and property markets, rather than consider such as objective to be implicit in what policy already achieves. Indeed, through the way in which risk calculations are incorporated into discount rates and thus impact on project viability, a contextual strategy that seeks to confront risk directly, especially in regeneration areas, could have a direct impact on land pricing, development potential and long-term sustainability.

In this respect, we have often returned to the importance of information to the effective operation of land and property markets and alluded to the potentially significant role of the state in reducing information shortages and asymmetry. Increasingly, it will have become apparent that information is power and that, taking a political economy perspective, there are those whose control of information enables them to obtain disproportionate bargaining strength in the market place(s). In the end, we would therefore argue that the main barriers to greater sharing and more effective use of the information that help determine land prices are not technical but institutional. This limited illustration from political economy of how land and property markets operate does not present policy-makers with necessarily easy options but it does reinforce our view that to understand the full range of potential policy impacts on land and property markets, it is necessarily to move well beyond supply and demand analysis and give considered attention to the actual and potential policy impacts on information, confidence, risk and uncertainty.

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